MACKINAW AREA PUBLIC LIBRARY MACKINAW CITY, MICHIGAN

Financial Statements For the Year Ended June 30, 2005

Prepared By:

Richard E. Mahlmeister, C.P.A. 580 South Nicolet, P.O. Box 996 Mackinaw City, MI 49701

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

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Local Gove	ernment Type	nship		Village	✓ Other	Local Government Na Mackinaw Are	^{me} a Public Library	,		ounty heboy	gan-Emmet
Audit Date 6/30/05				Opinion D			Accountant Report Sub	mitted to State:			
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2. We a	are certified	d pub	lic ac	countants	s registered	to practice in Mich	nigan.				
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Reports	on individu	al fed	leral f	inancial a	assistance p	programs (program	audits).				✓
Single Au	Single Audit Reports (ASLGU).										
1	Certified Public Accountant (Firm Name) Richard E. Mahlmeister, CPA, PC										
580 50	Street Address City State ZIP Mackinaw City MI 49701										
Accountain	ccountries Signature Date										

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

	<u>PAGE</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-5
BASIS FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements	
Balance Sheet-Governmental Fund	8-9
Statement of Revenues, Expenditures and Changes	
In Fund Balances-Governmental Fund	10-11
NOTES TO FINANCIAL STATEMENTS	12-17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	18

Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

November 17, 2005

Members of the Board Mackinaw Area Public Library Mackinaw City, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund information of the *Mackinaw Area Public Library*, *Mackinaw City*, *Michigan*, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund information of the *Mackinaw Area Public Library*, as of June 30, 2005, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 18, are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Richard E. Mahlmeister, C.P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Library's annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at June 30, 2004 totaled \$231,982. Of the total, \$141,792 represents capital assets, net of depreciation.

Revenues were \$151,420 (\$10,326 from program revenues and \$148,143 from general revenues). Overall expenses were \$158,736.

The Library purchased capital assets in the form of books and audio/visual materials in the amount of \$13,478 during the fiscal year. The Library has no debt. Capital asset and debt activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year June 30, 2005.

The remaining statements are fund financial statements, which focus on individual parts of the Library in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Library as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Library's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Library's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Library's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Library, you may also consider additional factors such as tax base changes, facility conditions, and personal changes.

All of the activities of the Library are reported as governmental activities; which are the operations recorded in the General Fund.

The comparison of net assets of governmental activities from year to year serves to measure a governments financial position:

	June 30, 2005	June 30, 2004
Current and other assets	\$90,190	\$82,693
Capital assets (net)	141,792	148,536
Total assets	\$231,982	\$231,229
Liabilities	\$1,020	\$
Net assets:		
Invested in capital assets net of related		
Debt	\$141,792	\$148,536
Unrestricted	89,170	82,693
Total	\$230,962	\$231,229

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

	June 30, 2005	June 30, 2004
REVENUES:	<u> </u>	
Program revenues:		
Charges for services	\$1,364	\$1,240
Operating grants and contributions	8,962	8,842
General revenues:		
Property taxes	110,175	101,050
State revenues	4,085	4,695
Interest income	1,579	2,039
Other	32,304	33,554
Total revenues	158,469	151,420
EXPENSES:		
Recreation and culture	158,736	168,779
Total expenses	158,736	168,779
decrease in net assets	(267)	(17,359)
Beginning net assets, as restated	231,229	248,588
Ending net assets	\$230,962	\$231,229

THE LIBRARY AS A WHOLE

Net Assets

The Township's governmental activities net assets decreased \$267 during the year, to total \$230,962. The General Fund net assets decreased primarily due to depreciation costs of the capital assets in the amount of \$20,222.

ANALYSIS OF SIGNIFICANT REVENUES AND EXPENSES

The Library's revenues consisted primarily of the following:

- \$110,175 of property tax and contributions from other governmental units.
- \$4,085 in state aid.
- \$29,746 in penal fines from Cheboygan and Emmet County.
- \$8,962 in donations from private individuals.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

ANALYSIS OF SIGNIFICANT REVENUES AND EXPENSES (CONTINUED)

Major expenditures consist of:

- \$89,225 in wages and payroll taxes.
- \$16,668 in books and periodicals.
- \$23,148 in insurance.

We continue to strive to maintain the same level of service to our constituents that we have always provided with the funding we have available.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Library Board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Library has the following type of fund:

Governmental Funds

The Library's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Library's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Library maintains one fund, the General Fund. The Library is financed primarily by property tax revenue, state aid, contributions from private individuals and penal fines collected from Cheboygan and Emmet County. The Library's saw an increase in fund balance of \$6,477.

Capital Asset and Debt Administration

At June 30, 2005, the Library capitalized assets in the amount of \$13,478 consisting of new books and audio/visual materials. Our capital assets of \$434,929 consist of land, building and improvements, books and audio/visual materials, computers and equipment.

At June 30, 2005 the Township had no debt outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GENERAL FUND BUDGETARY HIGHLIGHTS

The adopted budget of the Library remained stable over the year without amendments.

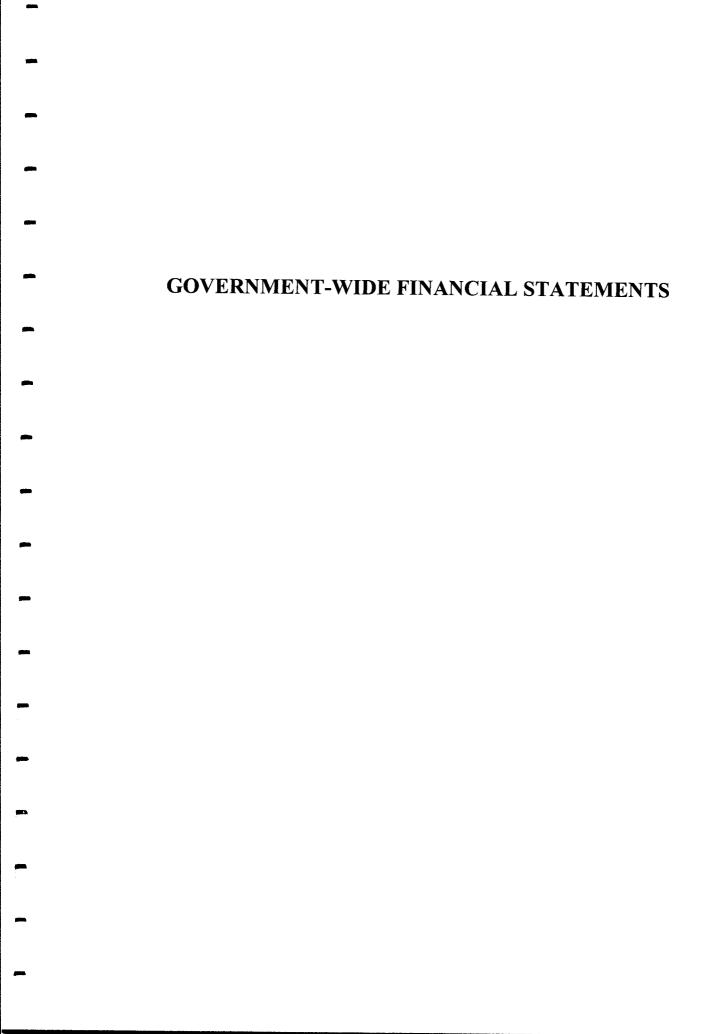
FACTORS AFFECTING FUTURE OPERATIONS

Tax revenues continue to grow or remain stable. The Library is concerned about decreasing revenues from penal fines and State Aid.

CONTACTING LIBRARY MANAGEMENT

This financial report is designed to provide our citizens, and customers with a general overview of the Library's finances and to demonstrate the Library's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Library at 231.436.5451.

BASIC FINANCIAL STATEMENTS



MACKINAW AREA PUBLIC LIBRARY STATEMENT OF NET ASSETS JUNE 30, 2005

	PRIMARY GOVERNMENT
ASSETS	GOVERNMENTAL ACTIVITIES
Cash and cash equivalents	\$26,053
Investments	
Receivables	51,963 12,174
Capital assets	434,929
Accumulated depreciation	(293,137)
TOTAL ASSETS	\$231,982
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable	\$1,020
NET ASSETS:	
Invested in capital assets, net of related debt	141,792
Unrestricted	89,170
TOTAL NET ASSETS	230,962
TOTAL LIABILITIES	
AND NET ASSETS	\$231,982
	\$231 ₅ 702

MACKINAW AREA PUBLIC LIBRARY STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

		Program R	evenues	Net (Expense) Revenue and Changes in Net Assets Primary Government
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	TOTAL
Primary government				
Governmental activities Recreation and culture	\$158,736	\$1,364	\$8,962	(\$148,410)
	P S U P	eneral Revenues Property taxes tate revenues Inrestricted interest inc enal fines	ome	110,175 4,085 1,579 29,746 2,558
	To	tal general revenues	-	148,143
	Ch	ange in net assets	-	(267)
	Ne	t assets, beginning of ye	ear	194,016
	Pri	or period adjustment	-	37,213
	Ne	t assets, beginning of ye	ear, as restated	231,229
	Ne	t assets, end of year		\$230,962

FUND FINANCIAL STATEMENTS

MACKINAW AREA PUBLIC LIBRARY BALANCE SHEET - GOVERNMENTAL FUND JUNE 30, 2005

	TOTAL
ASSETS	GOVERNMENTAL
ASSETS	FUND
Cash and cash equivalents	\$26,053
Investments	51,963
Taxes receivable	10,134
Receivables from other governmental units	2,040
TOTAL ASSETS	\$90,190
LIABILITIES AND FUND BALANCES LIABILITIES Accounts payable	\$1,020
FUND BALANCE	
Fund balance - Designated for subsequent year expenditures	20,000
Fund balance - Designated for children's programs	9,332
Fund balance - Unreserved, undesignated	59,838
TOTAL FUND BALANCE	89,170
TOTAL LIABILITIES	
AND FUND BALANCE	\$90,190

MACKINAW AREA PUBLIC LIBRARY BALANCE SHEET - GOVERNMENTAL FUND JUNE 30, 2005

Reconciliation of fund balances on the balance sheet for governmental activities to the statement of net assets

FUND BALANCE - TOTAL GOVERNMENTAL FUND

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add: capital assets

Subtract: accumulated depreciation

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$230,962

MACKINAW AREA PUBLIC LIBRARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2005

	REVENUES:	
	Property taxes	\$110,175
	State aid	4,085
	Private donations	8,962
	Penal fines	29,746
	Book fines	1,642
	Copy machine fees	1,106
	Fax machine fees	258
	Interest on savings	1,579
	Book sale	700
	Miscellaneous	216
_		
	TOTAL REVENUES	158,469
	HVDENDYENDE	
-	EXPENDITURES:	
	Salaries and wages	82,838
	Employee benefits	6,387
-	Office supplies	1,482
	Operating supplies	963
	Professional services	4,491
_	Printing and publishing	43
	Communications	6,043
	Transportation	332
	Books and audio-visual materials	13,478
_	Periodicals and newspapers	3,190
	Insurance	23,148
	Utilities	6,868
	Repairs and maintenance - supplies	1,347
	Repairs and maintenance - labor	699
	Miscellaneous	683
_	Capital outlay	<u> </u>
	TOTAL EXPENDITURES	151,992
_		151,992
-	REVENUE OVER EXPENDITURES	6,477
_	FUND BALANCE - BEGINNING OF YEAR	82,693
	FUND BALANCE - END OF YEAR	\$89,170
		307,170

MACKINAW AREA PUBLIC LIBRARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS

\$6,477

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.

Add: capital outlay capitalized during the current year

Subtract: depreciation expense

13,478

Subtract: depreciation expense

(\$267)

The accompanying notes are an integral part of these financial statements.

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The *Mackinaw Area Public Library* is recognized as a legally established District Library pursuant to Michigan P.A. 24, Section 6, 1989, serving the Mackinaw City, Levering and Pellston areas of Northern Lower Michigan's Emmet and Cheboygan Counties.

For external financial reporting purposes, the Library includes all funds that are controlled by or dependent on the District's legislative branch. The *Mackinaw Area Public Library* is considered to be a local governmental unit.

The Library has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the library. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support (the library does not have any business-type activities).

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use. Or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Library has only one fund; the General Fund and is considered a major fund.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

FUND TYPES AND MAJOR FUND

Governmental Funds

General Fund - The General Fund is the general (and only) operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes, penal fines, state aid and contributions.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and savings accounts.

INVESTMENTS

Investments are stated at cost and consist of certificates of deposit with maturity values of three months or longer.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES AND PAYABLES

All receivables and payables are reported at their gross values.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by varying values and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The library does not currently capitalize its collections. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Computer, and office equipment	5-10 years
Furniture and fixtures	5-10 years
Books and audio/visual materials	5 years

FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the Library has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

BUDGETS AND BUDGETARY ACCOUNTING

The Library follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Library Board prepares a proposed operating budget for the fiscal year commencing on July 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library Board.

The Library Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

NOTE 2: CASH AND INTEREST BEARING DEPOSITS

The caption on the combined balance sheet relating to cash, cash equivalents and investments represent deposits in one financial institution located in Cheboygan County in varying amounts as follows:

Cash and cash equivalents	\$26,053
Investments	51,963
	\$78,016

All accounts are in the name of the Library. The deposits do not exceed \$100,000 and, therefore, are covered by the Federal Deposit Insurance Corporation (F.D.I.C.).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: CASH AND INTEREST BEARING DEPOSITS (CONTINUED)

Michigan Compiled Laws, Section 129.91, authorizes units of local governments to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by the two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the current year was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Not being depreciated:				
Land	\$15,000	\$ -	\$ -	\$15,000
Being depreciated:				
Buildings	171,859	_	-	171,859
Building				
Improvements	21,940	-	-	21,940
Computer equipment	30,282	-	-	30,282
Library & Office				
Equipment	22,323	-	-	22,323
Furniture & fixtures	86,267			86,267
Books and audio/visual				
materials	73,780	13,478		87,258
Subtotal	421,451	13,478	_	434,929
	121,101	15,770		757,727
Less accumulated				
depreciation	(272,915)	(20,222)		(293,137)
Total	\$148,536	(\$6,744)	\$ -	\$141,792

Depreciation was charges to the Library's functions as follows:

Recreation and culture

\$20,222

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4: PROPERTY TAXES

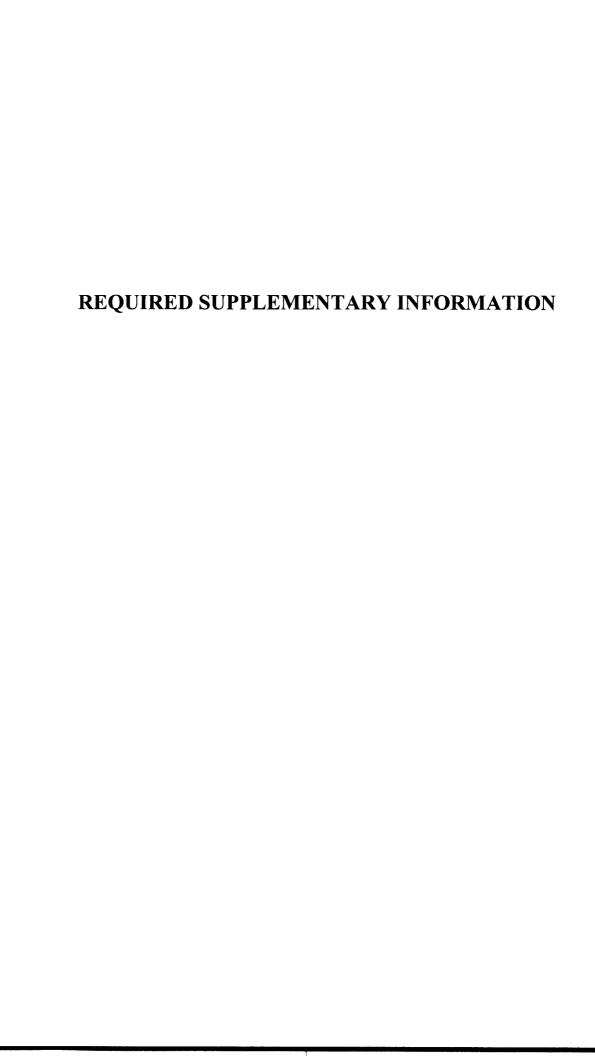
Property tax revenues shown in the General Fund reflect the 2004 Library levy on the assessed valuation of property located in the Counties as of the preceding December 31st. Taxable values are established annually by the Counties. The 2004 levy covers the Library's fiscal year of July 1, 2004 to June 30, 2005. The 2004 tax levy became a lien on properties on December 1, 2004, and was substantially collected in early 2005. Taxes became delinquent on March 1, 2005. Property tax revenues from the participating townships generated \$110,175 for general operating purposes.

NOTE 5: PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2005, the beginning net assets in the governmental activities was restated to reflect a \$37,213 increase in net capital assets for prior year's capitalization of books and audio-visual materials. This adjustment does not affect current year operations.

NOTE 6: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints, and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of the Library. Claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



MACKINAW AREA PUBLIC LIBRARY BUDGETARY COMPARISON SCHEDULE -GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Property taxes	\$100,000	\$100,000	\$110,175	\$10,175
State aid	4,000	4,000	4,085	85
Private donations	7,000	7,000	8,962	1,962
Penal fines	26,500	26,500	29,746	3,246
Book fines	1,300	1,300	1,642	342
Copy machine fees	1,000	1,000	1,106	106
Fax machine fees	100	100	258	158
Interest on savings	700	700	1,579	879
Book sale	400	400	700	300
Miscellaneous	300	300	216	(84
TOTAL REVENUES	141,300	141,300	158,469	17,169
EXPENDITURES-RECREATION AND CULTURE				
Salaries and wages	85,000	85,000	82,838	2,162
Employee benefits	6,800	6,800	6,387	413
Office supplies	1,700	1,700	1,482	218
Operating supplies	1,000	1,000	963	. 37
Professional services	5,000	5,000	4,491	509
Printing and publishing	100	100	43	57
Communications	6,600	6,600	6,043	557
Transportation	500	500	332	168
Books and audio-visual materials	17,700	17,700	13,478	4,222
Periodicals and newspapers	3,300	3,300	3,190	
Insurance	22,000	22,000	23,148	(1,148
Utilities	6,100	6,100	6,868	(768
Repairs and maintenance - supplies	1,000	1,000	1,347	(347
Repairs and maintenance - labor	2,000	2,000	699	1,301
Miscellaneous	500	500	683	(183
Capital outlay	2,000	2,000	-	2,000
TOTAL EXPENDITURES	161,300	161,300	151,992	9,198
REVENUE OVER (UNDER) EXPENDITURES	(20,000)	(20,000)	6,477	26,367
FUND BALANCE - BEGINNING OF YEAR	82,693	82,693	82,693	
FUND BALANCE - END OF YEAR	\$62,693	\$62,693	\$89,170	\$26,367



Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

November 17, 2005

Members of the Board Mackinaw Area Public Library Mackinaw City, Michigan

In planning and performing my audit of the financial statements of *Mackinaw Area Public Library* for the year ended June 30, 2005, I considered the Library's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 15, 2005 on the financial statements of *Mackinaw Area Public Library*.

Thank you for the opportunity to serve *Mackinaw Area Public Library*. I always appreciate the assistance I received from the Director, Assistant Director and Staff during my audit. Best wishes in the next year.

Shice cry,

Richard E. Mahlmeister, C.P.A.

Mackinaw Area Public Library Comments & Suggestions November 17, 2005 Page 2 (two)

REPORTABLE CONDITION

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of the Library. This condition is generally inherent in organizations the size of the Mackinaw Area Public Library, where corrective action is not practical, and is not necessarily considered to be a material weakness.

CAPITAL ASSETS

In performing my audit procedures I noted that items of small value are being included as capital assets in the listing of capital assets as prepared by management. The Government Officer's Finance Association (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset.

I recommend that the Library Board review the policy as to which assets should be recorded as a fixed asset. I further would recommend that the Board at least make this threshold \$500 to \$1,000. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.